

CHIEF OPERATING
OFFICER'S OVERVIEW

**“AT THE CORPORATE CENTRE
WE SET POLICY AND
STANDARDS, SUPPORT THE
ADOPTION OF BEST PRACTICE
AND IMPLEMENTATION OF
IMPROVEMENT PLANS AS
WELL AS MONITOR
INDIVIDUAL COMPANY
PERFORMANCE.”**

*2003 WAS A YEAR OF REWARDING
PROGRESS. WE FOCUSED ON
IMPROVING THE QUALITY OF OUR
SERVICES WHILE ALSO PROTECTING
OUR ENVIRONMENT, ENABLING OUR
PEOPLE AND SUPPORTING THE
COMMUNITIES WE SERVE.*

Ray O'Toole, Chief Operating Officer (left)
with Adam Walker, Finance Director



BUILDING ON THE MOMENTUM...

NATIONAL EXPRESS IS A DE-CENTRALISED GROUP, WITH MANAGEMENT TEAMS DRAWING ON THEIR LOCAL KNOWLEDGE TO PROVIDE LOCAL SERVICES MEETING LOCAL NEEDS. OF OUR 43,000 PEOPLE, ONLY 70 OPERATE OUTSIDE THE INDIVIDUAL BUSINESSES, EMPHASISING THE FOCUS WE PUT ON LOCAL DELIVERY.

At a corporate level we provide guidance and direction in key areas such as safety, strategy, finance, governance, management systems, property, procurement, the environment, risk management and engagement with stakeholders, including employees. However, we ensure that policies and procedures are embedded locally.

CORPORATE GOVERNANCE Corporate Responsibility encompasses Corporate Governance and a full statement covering the relevant aspects of governance can be found on pages 38-42 of our Annual Report and Accounts 2003.

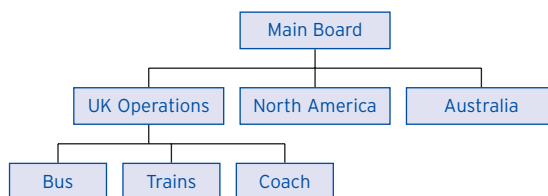
The review of the role and effectiveness of non executive directors by Derek Higgs and a review of audit committees by Sir Robert Smith led to the publication in July 2003 of the revised Combined Code on Corporate Governance by the Financial Reporting Council. We support these developments and have made changes in the structure of our committees to ensure compliance. We have now broadened the role of non executive directors through reorganising the committees.

Michael Davies will retire from the Board at the next Annual General Meeting in May. A successor will be announced before this time.

MANAGEMENT SYSTEMS AND REPORTING As part of a devolved organisation, our local management teams are responsible for the day-to-day running of their operations. Our corporate team is there to set policy and standards, support the adoption of best practice and the implementation of improvement plans and to monitor and report on performance.

Our divisional structure is illustrated in Chart 4. Our reporting lines extend across four levels: Company Boards are responsible for company-specific matters; Divisional Boards examine issues which impact at a higher and usually cross-company level; Main Board Committees (Audit, Remuneration, Safety and Nomination) are focused on their respective areas of responsibility; while the Group Board, which meets at least eight times per year, takes ultimate responsibility for corporate and strategic decisions.

Corporate Management System (Chart 4)



We continue to strengthen our operations through improved systems and management skills. We implemented a new train divisional structure giving added focus to our rail strategy and, very importantly, day-to-day train operating company (TOC) performance. We also strengthened the team responsible for franchise bids.

In 2004 we will be appointing a new Group Customer Services Director who will be responsible for promoting greater customer focus across all our UK businesses. Starting with the Greater Anglia franchise, the Group's policy is now to appoint customer service directors for all new franchises awarded.

During 2003 we developed a social, environmental and ethical supply chain programme. Our standard terms and conditions provide requirements on the suppliers of goods and services to Group companies. This year we undertook three environmental audits with our fuel suppliers, waste management contractors and environmental monitoring contractors together with two social audits with uniform and mobile phone suppliers.

RISK MANAGEMENT Early in the year we appointed our first Head of Group Risk, a clear demonstration of the value we place on risk management. This complements our existing focus on health, safety, environmental and workplace issues. We continue to embed our Group risk management strategy into the operations of our companies.

'I support fully the principles of Corporate Responsibility. Respecting the environment, supporting our staff and playing a key role within the community are essential to an effective public transport system.'

Adam Walker
Finance Director

The key drivers of risk in the business include economic environment, service and infrastructure failure, competition, regulation and safety, litigation and financial liabilities and staff issues including industrial relations and retention. Against this background we regularly review a matrix of risks and put in place detailed mitigation action plans.

Our more rigorous risk management process is also helping us limit the rise of insurance premiums, which have soared by some 200% across the transport industry following the Hatfield rail accident in October 2000. However, the real insurance issue relates to the cost of claims which we continue to monitor closely, rather than the frequency.

SAFETY AND ENVIRONMENT The Safety Committee meets four times a year. Chaired by non executive director Sue Lyons, all main board directors attend. The Committee has adopted increasingly robust reporting procedures and in 2004 will review environmental matters.

Our commitment to health and safety is demonstrated through the regular safety tours made to our operations by Executive Board Directors.

The recent recruitment of a Group Safety Auditor will continue to improve the way in which we collect and monitor safety data in 2004. His role will be to review processes and standards and to share best practice and ensure continuous improvement across the business.

STAKEHOLDER ENGAGEMENT We are in regular contact with all our key stakeholders; customers, rail passenger groups (RPCs), local and regional government, transport bodies, employees, suppliers and shareholders.

As well as the statutory requirements to engage with bodies such as RPCs, we encourage our companies to have regular dialogue and positive relationships with user groups. From national organisations such as the Association of Community Rail Partnerships (ACORP) to local bodies such as the Bedford – Bletchley Line Users' Association we believe in harnessing support and learning from the views of users.

More formally, our Trains division team works closely with industry partners through the new Joint Boards initiative. Under Joint Boards, the Strategic Rail Authority, Network Rail, passenger transport executives, maintenance contractors and operators meet to discuss issues relating to the network and specifically to prioritise engineering work. Through these forums we promote the performance improvements that our customers demand and deserve.

We interact on a regular basis with Government and in October 2003 provided comprehensive input to the Labour Party National Policy Forum Consultation: Sustainable Communities, Better Transport – a copy of which is available on our Group website. As a Group we are transparent with our views and will support industry positions where they are appropriate for our business.

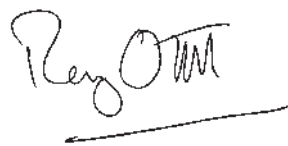
We work closely with trade and transport organisations including the Confederation of Passenger Transport (CPT), Association of Train Operating Companies (ATOC) and overseas transport bodies who participate in European transport discussions such as Union Internationale des Transports Publics (UITP). At a Group level during 2003, we gave input into a wide range of consultation processes. These included a response to the Department for Transport's (DfT) consultation to remove certain exemptions from Part III of the Disability Discrimination Act (DDA).

We continue to meet investors interested in the Group's corporate and social policies and are pleased to be a member of both the Dow Jones Sustainability and FTSE4Good Indexes. In addition, we have actively engaged with a number of organisations which monitor industry progress in this area.

As reported in the Supporting Our People section of this document, we have carried out extensive communications with our employees during the year, including the first UK-wide employee survey. As committed to in our CR Report 2002, we have also developed our first UK-wide Equal Opportunities policy. During 2004 we are implementing a new UK whistle-blowing policy.

This CR Report itself, which is based on a strategy that we have developed internally, includes a mechanism for gathering stakeholder opinion through the feedback form. Last year's publication incorporated a similar exercise and the results can be viewed on our website.

LOOKING AHEAD In addition to publishing this Report on an annual basis, we will use our website to communicate progress. Next year, we intend to extend the Report's remit to include our overseas operations.



Ray O'Toole
Chief Operating Officer

NO COMPROMISE ON SAFETY...

local decisions to reflect local circumstances

While carrying out routine maintenance on a Silverlink train, an engineer detected that there were loose nuts on a brake disc that could, in certain circumstances, have possibly compromised safety. The engineer reported his findings to management and, following a check of the rest of the fleet, all 37 Class 321 trains were taken out of service with immediate effect, as a precautionary measure. Silverlink borrowed trains from other National Express TOCs and a replacement bus operation was set up to ensure customer inconvenience was kept to a minimum. The issue was also alerted to other train operating companies operating similar fleets. Two days later, trains which had undergone tests

began to return to service and the full fleet was operational in four days. Throughout this period we kept customers fully informed as to latest news.

We believe this case study is an illustration of how our staff, management and the industry worked together to deal in the most professional manner with a difficult but critical decision. Our efforts and commitment were commended by the Department for Transport. Customers experienced great inconvenience and the decision for Silverlink was not easy. However safety is paramount in all our operations.



ACHIEVEMENTS *during 2003*

- ✓ Continue to develop our CR strategy - framework in place for CR reporting
- ✓ Appointment of a new Risk Manager
- ✓ Director safety tours undertaken
- ✓ Confirmed dialogue with key stakeholders and feedback on CR achievements
- ✓ KPI roll-out
- ✓ Use of website to promote CR progress

HIGHLIGHTS

- Undertook social, environmental and ethical supply chain audits
- Improved external recognition in CR indices
- Compliance with Combined Code on Corporate Governance

OBJECTIVES *for 2004*

- Improved safety data
- New Group Customer Service Director to be appointed
- Continued development of CR strategy
- Inclusion of our overseas operations in our CR reporting